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URUGUAY: Prospects for Sanguinetti

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Summary

President Julio Sanguinetti, Uruguay's first civilian President in 12 years, enjoys strong popular support. Sanguinetti is pragmatic, moderate, and generally friendly to the West, although he has expanded ties with the Soviet Bloc. The President has skillfully handled a number of sensitive issues since he took office in March 1985, capitalizing on the electorate's preference for orderly reform and politics by consensus. He successfully negotiated a controversial IMF agreement and has maintained open relations with both the political opposition, which controls Congress, and the armed forces. Sanguinetti has fostered cooperation between his Colorado Party and its chief political rival and has made some inroads dealing with the country's faltering economy, but he faces several tough challenges in the coming year. He has yet to make the structural reforms--such as pruning the overblown public sector and diversifying exports--that might lead to prolonged economic growth. Labor unrest continues to generate political tensions--the Communist-dominated union confederation has called for a general strike during Sanguinetti's visit to Washington--and sap industrial productivity. Also, the armed forces remain nervous as they await the Supreme Court decision regarding possible trials of officers for human rights violations committed under the previous military regime.

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This memorandum was requested by Jacqueline Tillman, National Security Council. It was prepared by [redacted] South America Division, Office of African and Latin American Analysis, and was coordinated with the Directorate of Operations. Information as of June 6, 1986 was used in the preparation of this paper. Questions and comments may be directed to the Chief, South America Division, ALA, [redacted]

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Background

Sanguinetti and his Colorado Party played an active role in Uruguay's transition to democracy last year after more than a decade of military rule. The party helped negotiate a face-saving formula for the military to relinquish power by allowing it limited participation in the government during the first year of civilian rule. [redacted] the military--realizing that the Colorados would be receptive to their concerns--actively supported the party in the elections. [redacted]

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[redacted] For his part, the US Embassy reports that Sanguinetti assiduously cultivated good relations with Armed Forces Commander-in-Chief Hugo Medina to ensure a smooth transition to democracy. [redacted]

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Sanguinetti's Colorado Party

The Uruguayan electorate remains pluralistic--three parties made strong showings in the legislative races--but we believe Sanguinetti's presidential victory demonstrated a strong centrist consensus for moderation in both the economic and political spheres. Voters--41 percent chose Sanguinetti--responded to his statesmanlike appeals for cooperation among all sectors and for rebuilding democratic institutions and increasing economic productivity. His call for reconciliation positioned him well for the delicate task of governing with an opposition controlled Congress. [redacted]

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We view the 50-year-old Sanguinetti--a lawyer, journalist, member of the Chamber of Deputies from 1961-73, and cabinet minister from 1969-72--as a traditional Colorado Party leader. He associates himself with the legacy of former President Jose Batlle y Ordenez, who built the modern Colorado Party to represent the urban middle and lower classes. "Batllismo"--which the US Embassy sees as similar to European social democracy--remains an ideal in Uruguay today. Many Uruguayans view Sanguinetti as the modern-day embodiment of Batllismo, and this, combined with his leadership of the largest Colorado faction, has insured him firm control over Uruguay's best organized political force. [redacted]

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Although the Colorados are much more unified than the Blancos or the Broad Front, the party contains various factions. The differences, however, are based more on personalities than ideology, and have so far not hampered the President's authority, either within the party or the government. [redacted]

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The presence of several strong Colorado figures, in our view, provides the party considerable depth of leadership and contributes to its relative unity and popularity. Vice President Enrique Tarigo, for example, heads the Liberty and Change faction, which is slightly to the left of Sanguinetti's Unity and Reform faction. In our view, Tarigo is showing impressive leadership as president of the Senate and has gained public stature through his tactful handling of a number of controversial debates. As Sanguinetti's representative to international conferences and meetings in other countries, Tarigo is also increasing his regional exposure and foreign policy expertise. [redacted] Tarigo and his supporters believe he would be the Colorado's strongest candidate for the presidential election slated for 1989. [redacted]

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Several senators have also assumed key roles in the party, but without undercutting Sanguinetti's power. Senator Jorge Batlle, from Sanguinetti's own faction, is the son of the former president and a seasoned politician with excellent contacts. Senator Manuel Flores Silva, from the Independent Batllista faction, has become a moderating force within this traditionally left-of-center grouping. [redacted] The faction is especially important to the party because of its concentration of Colorado youth members. [redacted]

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The Opposition

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Uruguay has traditionally followed a two-party political system. Historically, the Blanco Party represented the interests of conservative landowners and the urban elite while the Colorado Party articulated middle and working class aspirations. These roles have shifted over the years, and the Blancos are now slightly to the left of the centrist Colorados, although both parties have factions that span the political spectrum. In addition, a number of leftist political parties and groups have emerged to form the Broad Front coalition. [redacted]

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The Blanco Party--the Colorado's traditional rival--is working to rebuild its strength and moderate its image following its defeat in the national elections last November. Wilson Ferreira, the 67-year-old veteran politician who heads the Blancos, enjoys unique broad support among the party's various factions. Ferreira's strategy has been to play the role of a loyal democratic opposition, according to the US Embassy, believing this approach--playing to Uruguay's wish for political tranquility--offers the best hope for victory in the next elections. [redacted] Ferreira reckons the Colorados will grow increasingly dependent on the Blancos to govern, thus increasing his leverage. So far, the Blancos have acted fairly responsibly, although segments of the party beyond Ferreira's control occasionally sabotage some government initiatives. The Blancos are also working, with some success, to develop support within labor and student groups--long strongholds of Uruguay's third political force, the leftist Broad Front, according to US Embassy sources. [redacted]

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The Broad Front, a coalition of more than a dozen leftist groups, spans leftist ideology from democratic socialism to Marxist-Leninism. The Front, in our view, provides Uruguay's more extreme leftist groups--including the Communists--with political respectability and influence they would otherwise be denied. Led by former General Liber Seregni, the Broad Front has consistently been the Sanguinetti government's most vocal opponent in Congress. It advocates debt repudiation and has sought to undermine the government's efforts to discipline the labor unions. The coalition would naturally draw defecting Blancos disenchanted with Ferreira's relative moderation, since it presents itself as the sole champion of the left. However, infighting stemming from the Front's diverse membership works against its ambitions for the 1989 elections. [redacted]

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Key Issues Facing Sanguinetti

The Economy

Falling prices for Uruguay's agricultural exports, inefficiencies created by state direction of the economy, and an extravagant welfare state that the country cannot afford have stymied economic growth over the past 25 years. This pattern was accentuated by the military regime of 1973-1985, which, despite its free-market rhetoric, financed social welfare programs and other government expenditures by extensive foreign borrowing. As a result, Sanguinetti inherited a declining economy, a large inefficient public sector, and the largest per capita foreign debt in South America. [REDACTED]

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During his first year in office the President implemented modest free market reforms and austerity measures that enabled Uruguay to obtain a \$120 million IMF-supported stabilization program and arrange for \$150 million in new commercial loans, thereby shoring up the country's precarious payments position. Furthermore, the press reports that the Administration and several opposition parties signed a three year "national accord" in April that promises to reactivate the economy through production incentives and export expansion. The US Embassy concludes that cheaper oil imports and lower interest rates probably will generate economic growth this year of roughly two percent while the government's anti-inflationary wage policies will hold down price increases. [REDACTED]

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Despite these accomplishments, Montevideo has not, in our view, implemented the basic reforms needed to make the Uruguayan economy internationally competitive: pruning back the public sector and overblown welfare programs, giving concrete production incentives to private entrepreneurs, and diversifying exports. Sanguinetti may yet propose key tax reforms or cuts in government spending, but the opposition-controlled legislature probably would kill or water down such efforts. While Sanguinetti has touted privatization and increased productivity as the cure for his country's economic woes, his chances of following through on these principles are slim. Surveys indicate most Uruguayans support a state-directed economy and large welfare system. Moreover, the Embassy reports that the weak business sector is divided and unrepresented in the government. [REDACTED] Montevideo is searching out new export markets--often in the Communist bloc--but the US Embassy reports Uruguay has not diversified its export base and still depends on agriculture for 90 percent of its export earnings. [REDACTED]

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Montevideo's hopes for economic support from Washington have focused mainly on trade and foreign debt. Because Uruguay must increase exports to service its debt and advance economically, Sanguinetti has loudly criticized protectionism in OECD countries. With the United States an increasingly important trade partner, government officials have denounced US agricultural export subsidies and complained to Embassy officials, for example, that pending US legislation will hurt Uruguayan rice exports. Montevideo has taken an active role in the Cartagena process--Foreign Minister Iglesias is secretary pro-tem of the group--but has avoided radical rhetoric concerning the debt question and limited its proposals to calls for lower interest rates. Nevertheless, officials have promised to push for a link between trade and financial and monetary affairs in the GATT ministerial meetings to be held in Uruguay this fall. [REDACTED]

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Labor

Although rebuilding the economy is Sanguinetti's principal long-term challenge, we view labor unrest as the greatest immediate problem. Since the return to civilian rule, aggressive leftwing union leaders quickly returned organized labor to its accustomed role at the center of the country's political and economic affairs. Labor strikes and rallies have severely disrupted both industrial production and the service sector. According to the US Embassy, labor leaders called over 200 strikes and organized 223 new unions in the first six months of the Sanguinetti administration. Strikes continue to plague Uruguay; for example, the press reports that labor leaders are planning a general strike on 17 June to coincide with Sanguinetti's meeting with President Reagan. []

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Sanguinetti has begun to take tougher measures against persistent labor agitation. Initially the President shunned direct public criticism of organized labor in an effort to maintain credibility with the left, according to US Embassy and press reports. Since last summer, however, the administration has worked to restrain the labor movement. Most recently Sanguinetti sent labor leaders a letter, which was published in the local press, criticizing the unions' failure to recognize the government's achievements and suggesting steps to reduce existing tensions. In addition, the US Embassy reports the government has issued decrees limiting the right to strike among employees in "essential services", such as customs workers. []

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Military Attitudes and Human Rights

Sanguinetti has been walking a fine line between meeting demands from the left and appeasing a still apprehensive military. Although the armed forces generally support Sanguinetti and the return to civilian rule, the US Embassy reports that the military is worried by leftist demands for Argentine-style trials of officers for alleged human rights abuses committed under the military government. The Supreme Court will decide whether these cases will be tried in civilian or military courts. []

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Sanguinetti, aware of the military's concern, has worked with Colorado and Blanco Party leaders to lessen pressures for human rights trials. []

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[] We believe the military budget cuts imposed by the civilian government are sharpening this discontent; the three services are undergoing budget reductions of 20 to 30 percent. The US Embassy reports that the military believes these cuts will reduce its internal security capabilities. []

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Foreign Policy

Since the return to civilian rule, Uruguay has sought to expand its international ties. Besides maintaining Uruguay's traditionally close relations with the United States and Western Europe, Sanguinetti is paying greater attention to regional relations. In addition to playing a leadership role in the Cartagena Group, Uruguay is a member of the Contadora Support Group, although it has played a minor role. []

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Uruguay has also strengthened relations with the Soviet Bloc. According to press reports, TASS will open an office in Montevideo; []

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[] Last year Uruguay established relations with Cuba after a 21-year hiatus, and last month a trade agreement was signed between the countries, according to the press. The President, however, has limited the number of Cuban diplomats in Montevideo. []

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Although relations between Uruguay and the United States are friendly and cooperative, Sanguinetti has been more critical of US policy than previous military rulers. The administration has had little positive to say regarding the US role in Central America, and Sanguinetti publicly criticized the US bombing of Libya. Nevertheless, the President has taken care not to let specific policy disputes blunt the pro-Western thrust of his government. Uruguay looks to the United States to support its new democracy, and we believe it is likely to retain its longstanding role as a US ally. []

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Outlook

Although Sanguinetti's centrist policies have been relatively successful over the past year, the administration will face a number of economic and political challenges throughout 1986. Uruguay will continue to be beset by high inflation and unemployment and a burdensome foreign debt. The aggressive, leftist-dominated labor movement will agitate for widespread nationalizations, for increased social welfare expenditures, and for wage hikes that go beyond increases in productivity. Labor agitation will continue to disrupt industrial production and the service sector. Moreover, the military is still not fully convinced that the government can control the left as well as protect the armed forces from prosecution for human rights abuses. []

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We believe that Colorado Party unity and Sanguinetti's sagacity will enable the government to manage these challenges at least over the next year. The President has earned maneuvering room through maintaining public confidence and support. His efforts to discipline labor, for example, will be aided by the electorate's disenchantment--revealed in the polls--with social and economic disorder that has disrupted the country since the return to civilian rule. We also expect the government to preserve its military support as Sanguinetti deals carefully with the armed forces over the sensitive issue of human rights trials. Moreover, we believe the Colorados can count on at least some Blanco Party help to counter leftist inroads in Congress and support modest economic reforms. []

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[REDACTED]

While Sanguinetti appears secure, we view long-term prospects for stability in Uruguay as uncertain at best. Depressed prices for traditional agricultural exports will continue to hinder economic growth despite strict belt-tightening measures and some diversification of exports. Economic stagnation and controversial austerity measures will probably erode the Colorado Party's strong public support and cause labor tensions to escalate over time. The Blancos now appear the likely beneficiary of any serious Colorado missteps, but should Uruguayans turn to the the leftist Broad Front in future elections, this would probably trigger another military intervention. [REDACTED]

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